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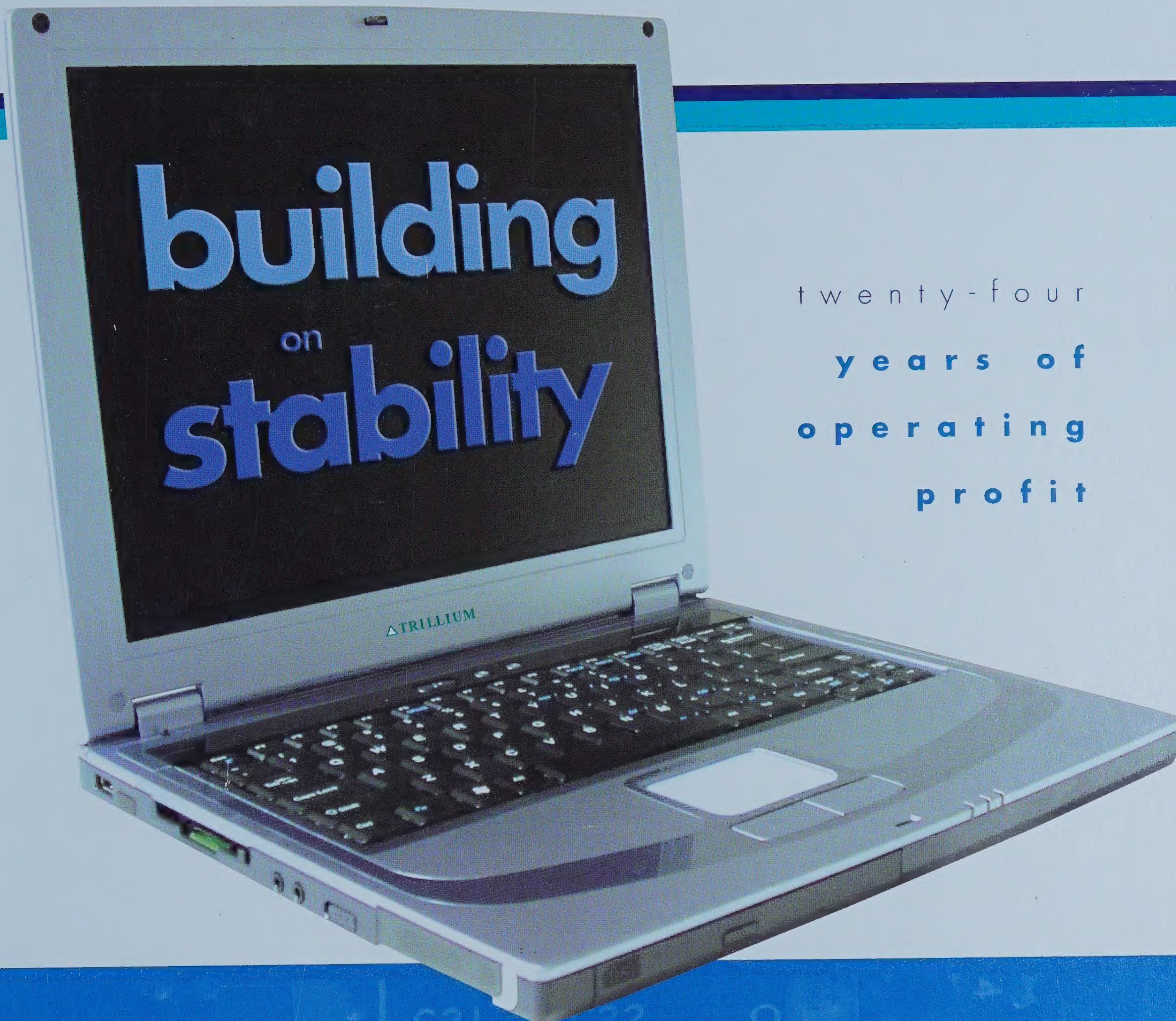

twenty-four **years of operating profit**

EMJ DATA SYSTEMS LTD.

2003 Annual Report

Ten Reasons to Invest in EMJ

1. We are profitable. EMJ has had an operating profit for the last 96 consecutive quarters.

2. Our yearly sales have increased twenty-one of the last twenty-four years.

3. Low price earnings ratio.

4. Historically, our dividend return has been over three percent annually.

5. We have a team of long-term managers who have a proven record of performance.

6. Fifty percent of our staff who were with us five years ago are still with us; and 26% have over ten years with the company. In a knowledge industry like ours, having long-term people helps us stay ahead.

7. EMJ is the largest niche distributor in Canada—we know what we're doing, and we do it well.

8. No customer dependency—our top customer accounts for less than five percent of sales.

9. EMJ has a strong balance sheet.

10. We are an environmentally conscious and an ethical company, with a reputation for unyielding integrity.

Financial Highlights

96th
Consecutive quarter of operating profit

4.5%
INCREASE in Sales for the year ended July 31, 2003 compared to the previous year

$0.30
Earnings per share

40 days
Accounts Receivable average sales days outstanding

10.9%
INCREASE in average number of customers buying per month

40 days
Inventory average sales days outstanding

Years Ended July 31, 2003 and 2002

CONSOLIDATED FINANCIAL DATA
($000s, except number of shares and per share data)

Operating Results	2003	2002
Sales	190,045	181,937
Gross margin	14,125	15,777
Income from operations	2,737	4,374
Net income	2,349	3,950
Earnings per share	$0.30	$0.50
Diluted earnings per share	$0.30	$0.50
Financial Position		
Working capital	16,816	14,265
Total assets	47,631	55,535
Shareholders' equity	21,683	20,569
Weighted average number of shares	7,901,601	7,863,990
Total number of shares outstanding at July 31	7,902,851	7,895,151

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Report to Shareholders

Our performance for the year was good compared to the industry but not satisfying to management. Sales were up 4.5%; profits were down 40%. Despite this drop, we are still solidly profitable. We are proud to have continued our string of profitable quarters—96 and counting.

Once again, I am pleased to report that during the year we received a number of prestigious awards. I am most proud of the awards from independent computer reseller surveys. We were honoured with the 2003 Computer Dealer News award for 'Top Distributor', an award that we also received last year. As well we were voted '#1 Distributor' in eChannelLine 'ChampsVendor / Distributor Preference Survey 2003'. In many ways winning these awards is remarkable, since EMJ is smaller than many of the other distributors we are compared to. It is rewarding to know that our customers appreciate and value what we do and how we are doing it. It indicates high customer satisfaction.

Jim Estill, President and Chief Executive Officer

We have a solid reputation in the computer business, built over twenty-four years. Having great products and good customers are fundamental to our business success and profitability.

This is the second year I am writing about how bad the industry is. I do not want to write about it again next year. We continually ask ourselves this: how can we grow sales and profits? Rather than wait for the industry to turn, we have had to make our own future.

The biggest news for EMJ did not occur in fiscal 2003—it happened in September 2003 when we acquired Daisytek International's Canadian operations (Daisytek Canada). Daisytek Canada is a distributor of computer supplies, media and accessories with similar sales and profits to EMJ. Daisytek Canada is a good, well run company with a similar corporate culture. They are fast, frugal, efficient, and hard working with high integrity.

There will be some cost savings in the combination of the two companies. EMJ can handle some of the MIS and accounting functions in Guelph less expensively than they were done in the past. EMJ and Daisytek Canada can combine offices in Montreal and in Vancouver. The primary synergy will be from the sales side. All of EMJ's customers are good target accounts for Daisytek Canada and some of Daisytek Canada's customers are good prospects for EMJ.

Daisytek Canada's colour printer supplies business is in a growth period. Now that more companies are using colour printers, the cost per printed page has increased from less than two cents per page for black and white to over 20 cents for some colour printing. Companies that are buying more costly supplies will add to Daisytek's revenue.

As part of this acquisition, we have raised funds by way of convertible preferred shares and convertible debentures. The cost of these funds is high compared to what EMJ is used to paying. We have a three year goal to either get these funds to convert to common stock or to pay them off. Paying this premium is necessary to make the Daisytek Canada acquisition work and was factored into the purchase decision. Even with the dilution (if the shares and debentures convert) the acquisition is highly accretive on all counts—balance sheet, income statement, EPS. We intend to continue with a 16 cent dividend but will likely not do a special dividend until this high-cost money is dealt with.

I am highly optimistic about our future. We have a solid reputation in the computer business, built over twenty-four years. Having great products and good customers are fundamental to our business success and profitability. Success and profitability deliver shareholder value over the long term.

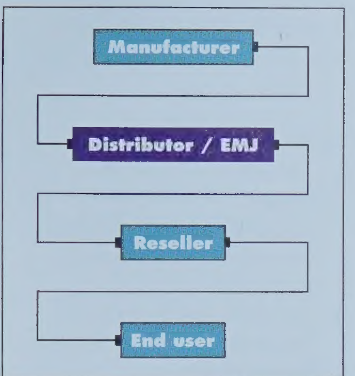
I appreciate the continuing support of all our shareholders.

Jim

Jim Estill
President and Chief Executive Officer

Introduction

EMJ Data Systems Ltd. is a distributor of computer hardware and software products, selling to dealers, system integrators and Value Added Resellers (VARs) in Canada.



Manufacturers use distribution because they save money.

The company's headquarters is located in Guelph, Ontario and is approximately an hour's drive west of Toronto, Ontario.

EMJ has five Canadian branch offices in:

- Vancouver, British Columbia
- Calgary, Alberta
- Winnipeg, Manitoba
- Montréal, Québec
- Halifax, Nova Scotia

The company has two Canadian warehouse locations. The main warehouse (70,000 square feet) location is in Guelph, Ontario and the second warehouse (7,000 square feet) is located in Vancouver, British Columbia.

PRODUCTS OFFERED

EMJ distributes both hardware and software products from over 160 manufacturers.

EMJ decided several years ago to specialize in certain markets. Today, these markets include:

- Apple and Apple 3rd party products
- Bar Coding / Auto-ID / Point-of-Sale
- Digital Video
- Networking
- Security

EMJ does carry what resellers call 'calling-card lines'—manufacturers that have good brand name recognition in the industry. Such manufacturers include Acer, Cisco Systems, Lexmark, Microsoft, Sony, Symbol Technologies and more. Several of these product lines are also available in Canada from other distributors.

In many cases, the company's strategy is to sell the products of the number two or number three manufacturer in Canada, aiming to be one of the largest distributors of that manufacturer's products.

EMJ is the exclusive Canadian distributor for several manufacturers.

BRANCH OFFICES ACROSS CANADA

One of the benefits of being a smaller distributor is EMJ's ability to know the customers better.

Having branch offices fosters a more personal, one-to-one relationship between EMJ and local resellers. It helps the company understand the needs of resellers when EMJ can interact more closely with them. A single, centralized office can depersonalize a business relationship, especially if each caller is treated as an ID number rather than a person.

Local branch offices allow EMJ to send representatives out into the field to meet with customers one-on-one, to give a reseller that personal touch they sometimes require and expect.

EMJ Distributes:

Apple/Apple 3rd party

Bar Coding/Auto-ID/Point-of-sale

Digital Video

Networking

Security

EMJ Data Systems Ltd. is a distributor of computer hardware and software products, selling to dealers, system integrators and Value Added Resellers (VARs) in Canada.

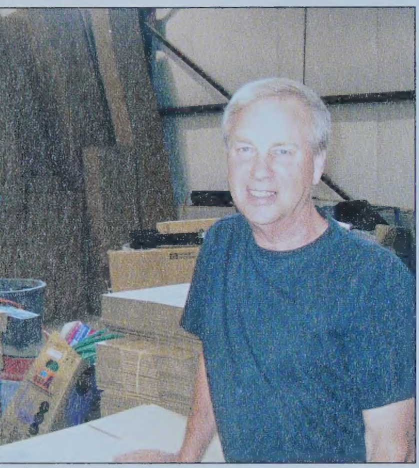
EMJ's Top Ten Manufacturers at year end, July 2003 (by sales in alphabetical order):

- Acer
- Apple
- Brother
- Canon
- Cisco Systems
- EPSON
- Fujitsu
- Kingston
- Microsoft
- Symbol Technologies

A complete listing of all current manufacturers can be found at: www.emj.ca/vendorlist.html

A Brief History of EMJ

At EMJ, our goal is to find products with potential market niches that are still new and profitable. Such products have great potential for long-term growth and adoption, and provide good profit margins.



In many cases we will create a niche out of a product line where we can be the dominant player.

The following is a brief history of EMJ since it became a publicly-traded company on the Toronto Stock Exchange (TSX) in 1994:

1994
- Sales of $68.1 million
- 100 full-time employees
- Purchased TCR Technologies Limited and Trillium Computer Resources Inc.
- Added a 34,000 square foot warehouse addition to its Guelph, Ontario warehouse, bringing the total size up to 70,000 square feet

1995
- Sales of $98.5 million
- Began specializing in Internet products
- Established website at www.emj.ca
- EMJ America began to focus on providing embedded systems products to its customers
- Acquired Primax Data Products

1996
- Sales of $140.0 million
- Sales to the Canadian Federal Government (through a reseller) totalled $10 million
- Purchased assets of Truger Technologies
- Purchased assets of ADAM Peripherals, Inc.
- Purchased two-thirds of Zim Technologies, Inc.
- Became a Microsoft authorized distributor

1997
- Sales of $154.7 million
- Became a distributor of Cisco Systems
- Began specialization in CD-Recording and Digital Video products

1998
- Sales of $142.0 million

1999
- Sales of $162.4 million
- Purchased Sidus Systems Inc.

2000
- Sales of $166.4 million
- Focused on Wireless products as a niche

2001
- Sales of $197.5 million
- Ranked 13th for 'Return On Invested Capital' by The National Post Business Magazine
- Acquired assets of SDMS (Specialized Digital Micro System Ltd.)
- Purchased the inventory of EMPAC

2002
- Sales of $181.9 million
- Report On Business ranks EMJ as the 423rd largest company in Canada when ranked by profit
- One of the first Canadian companies to successfully receive the ISO 9001:2000 designation
- Adopts Security products as a new market niche

2003
- Sales of $190.0 million
- Celebrated 10 year anniversary as distributor of Apple Canada, Inc.
- Celebrated 15 year anniversary as distributor of Acer Canada
- Listed: 636th in Revenue; 31st in Invested Capital; 47th in Shareholder's Equity in the National Post's Business magazine, June 2003
- Acquired Daisytek Canada and DSI Canada (August 2003; fiscal 2004)—See page 10 for a profile of Daisytek Canada

Interesting Facts:

- EMJ contributes to over forty local and national charitable organizations
- As a member of the Imagine group of companies, EMJ donates one percent of its profits to charity
- EMJ is currently upgrading its online ordering system at www.emj.ca, including searchable product categories, product photos, expanded product descriptions, general and detailed product specifications, ability to compare similar products and more

Company Awards*

1997

- Computer Dealer News 'Resellers Choice Awards—Winner (Distributor)'

1998

- Jim Estill, President and CEO, awarded Canada's 'Top 40 under 40 Award' for 'Achievement in Computer Industry'
- Computer Dealer News 'Resellers Choice Awards—Honourable Mention (Distributor)'
- City of Guelph 'Quality Awards—Service Award of Merit—Large Business'

1999

- Acer 'Performance Award' for 1998
- City of Guelph 'Quality Awards—Service Category'
- VarBusiness 'Distribution 100'—EMJ listed

2000

- SCO 'Top Distributor in Canada' since 1997
- The Mace Group (macally) 'Big Apple Award—#1 Distributor'
- Sonnet Technologies' 'Fastest Growing Distributor'

2001

- 'Top Distributor'—Microsoft Open License Software
- Recognized as one of 'Canada's Top 50 Best Managed Companies'
- Chosen as one of the 'Top 10 Distributors' ("The Trendsetter") in the June 4, 2001 edition of Channel Business magazine
- Highest ranking (34 out of a possible 40 points) for supplier website, as written in Channel Business, May 7, 2001 issue

2002

- Chosen as 'Top Distributor' in Computer Dealer News' 'Resellers Choice Awards'
- Recognized as one of 'Canada's Top 50 Best Managed Companies'
- Sweeps Distributor Survey in the 5th Annual ChannelLine 'Champs Survey'

2003

- Winner, 'Technical Services Vendor of the Year', by STAPLES / Business Depot
- Recognized as one of 'Canada's Top 50 Best Managed Companies' (August 2003)
- Co-winner of Computer Dealer News' 'Resellers Choice Award—Distributor' (September 2003)
- Winner, ChannelLine 'Champs Vendor / Distributor Preference Survey 2003' (September 2003)

July 2003: Apple Canada recognizes its ten year business relationship with EMJ.

During fiscal 2003, EMJ won the 'Top Distributor' category in Computer Dealer News' 'Resellers Choice Awards'.

** Listed by Calendar Year.*

EMJ Requalifies as One of 'Canada's Top 50 Best Managed Companies'...

"I am especially proud EMJ received this prestigious award for the second year in a row. It's a testament to the dedication of our staff and their continuing efforts to make our company better."
–Jim Estill

Every company wants to be the best. EMJ found out how they compare with others when they were selected as a winner of Canada's 50 Best Managed Companies, sponsored by Deloitte & Touche, CIBC Commercial Banking, National Post and Queen's School of Business.

Companies that entered the competition were subject to an extensive questionnaire and interview session. Regional finalists competed on a national level.

Strategy

Training on a variety of professional subjects and team-building exercises for supervisors and managers encourage growth of each and every EMJ employee.

LEADERSHIP

EMJ's emphasis on technical knowledge emanates from the top. Company President, Jim Estill's accreditations include Professional Engineer as well as B.A. Sc., Systems Design Engineering

Jim Estill provides to all employees a quarterly status report detailing EMJ's recent successes and challenges. The report takes the form of a casual mid-day meeting where questions and discussion are welcome. Business information is presented in everyday language and keeps all employees up-to-date with the company's direction.

In circumstances where manufacturers provide support to users and welcome inquiries, EMJ often provides the first level of contact to solve problems and answer questions that don't necessarily require the manufacturer's attention.

Managers' meetings twice a month allow departmental leaders a chance to share their solutions and brainstorm for problem solving.

With managers' meetings and an annual sales staff retreat weekend each September, EMJ leadership assets continue to add value and remain relevant. Endeavours such as outsourced training on a variety of professional subjects (customer relations, sales expertise, etc.), and team-building exercise for supervisors and managers. encourages growth of each and every EMJ employee.

EMJ is Known For:

- Integrity
- Profitability—96 Consecutive Quarters of Operating Profit
- Longevity
- #1 Canadian Acer Distributor
- #1 Canadian Apple Distributor
- #1 Canadian Bar Code / POS Distributor
- #1 Canadian Brother Distributor
- #1 Canadian Epson Distributor

STRATEGY

In a Canadian market segment dominated by larger players, EMJ has thrived by carving out niches in the market, supplying and servicing these specialized areas that often have a scope that is too small for our largest competitors to involve themselves in. This same scope is often found by our smaller rivals to be too large for them to function effectively in.

EMJ selects manufacturers and products when the company can dominate a market or gain a competitive advantage. The company looks at markets that competitors don't focus on and makes them a specialty. Resellers benefit from this because EMJ educates its customers about these products and their applications. This allows resellers to grow their business into new and emerging market segments that are growing and more profitable.

To differentiate EMJ in an industry where several players offer identical or very similar products, EMJ provides to resellers a higher level of technical support than is available from other distributors. This includes pre-sales and especially after-sale phone, fax, and email support. This is evident in the numerous awards that EMJ has earned over the years.

PROCESSES AND SYSTEMS

All of EMJ's information technology needs are sourced internally, from the computer hardware required to the expertise needed to write custom applications on various platforms. In-house employees are regarded

as the best choices for these tasks, since they have thorough knowledge of what is needed and what is most effective. In that way, processes can be quickly streamlined, managed and made adaptive.

Processes range from contact management, inventory control, order fulfillment, payment and invoicing, to collection and consolidation.

In order to demonstrate the quality of the in-house brand computers the company builds (its Trillium brand of PCs and notebooks), EMJ pursued and obtained ISO 9002 - 1994 registration. A unique arrangement is that only our manufacturing facility is ISO-registered, proving that the company assessed its needs and met them in an efficient manner.

EMJ was recently awarded the current ISO 9001:2000 certification of its manufacturing facility.

EMJ custom-builds computers including Trillium computers. The manufacturing department also performs customization for networking products, and can perform upgrades or modifications on many computers at once.

ORGANIZATIONAL VALUE

One of EMJ's organizational assets—its quality management system—is self-mandated to strive for and obtain continuous improvement through such mechanisms as a corrective and preventive action procedure, a problem notice procedure, monthly quality management systems review meetings, and spontaneous departmental meetings.

Another one of its assets, the strategy behind the 'niche distributor' business model is subjected to natural market forces that lead to improvements such as resource re-allocation, dropping and adding product lines, addressing different or new segments of the market, reacting quickly to changes in the marketplace, and anticipating trends.

One enhancement to EMJ's corporate culture and values is new employees (and the ideas they bring with them to EMJ) that comes with growth, acquisitions and mergers. Fresh concepts and outlooks add value to fundraising teams, public and investor relations and generally EMJ's standing in the community and the industry.

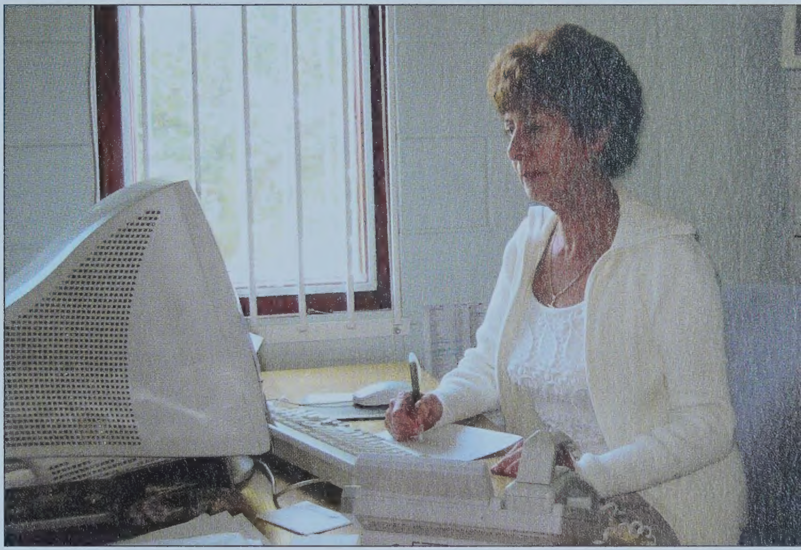
> Our research and development efforts on new product, and on product integration, provide us with a solid background from which solutions can be devised.

COMPANY CULTURE

Uninterrupted operating profits since the company's inception are largely a result of a corporate culture that embraces frugality as well as the principle of working smarter. The corporate headquarters, as well as the branch offices, are functional but not extravagant facilities. All ranges of corporate expenditures are reviewed and justified before being approved. EMJ's staff is provided with resources and training to work smarter by looking for and implementing shortcuts, identifying and eliminating duplication of efforts, using technology and skills to update and streamline cumbersome processes, and so on.

Equality in the sharing of perks and profits with all employees, often difficult in an industry that is largely driven by sales performance and individually targeted rewards, is a long-standing, proud achievement of EMJ. Incentives provided by suppliers to motivate selling are distributed equally between sales and non-sales staff, recognizing all levels of contribution to the company's overall effort. For example, a monitor supplier may initiate an incentive program to EMJ employees so that if the company sells a certain number of monitors per month, the company will be given a certain amount of money. This money is distributed semi-annually to all employees that have worked for the company for at least 12 months.

Success means, in part, giving back to the community that helped foster that success. To that end, EMJ assigns several employees to address charity fund-raising efforts towards getting contributions from all staff. EMJ then matches all employee contributions.



By knowing a customer's business, and by understanding the products the company is actually selling (rather than just knowing how to find a part number), EMJ's sales staff is important in helping its resellers select the best solution for their needs.

GOOD JOBS FOR GOOD PEOPLE

EMJ has never laid any staff off because the company believes it is not advantageous to do so. EMJ is a business, just like every other business out there, trying to grow and be profitable. If EMJ announced it was laying off staff, what happens to the attitude of the employees who remain?

They become distracted. They think the company is not doing so well. They wonder if they'll be included in the next round of layoffs, if that ever comes.

EMJ, like any good business, operates best with motivated staff who are focused on doing good work. Such a level of

Continued on Page 8...

Strategy... Continued from Page 7

performance cannot be reached if people are wondering if they'll have a job three months down the road. By reassuring EMJ's staff that there would be no layoffs, its employees breathed a collective sigh of relief. As a result, job security was removed as a concern for employees, and they were able to concentrate on their work. That's what a company needs during both good times and bad—focused, productive staff.

70,000 square feet in Guelph, ON and 7,000 square feet in Richmond, BC are used for distributing niche products.

DIFFERENT FROM COMPETITORS AND VALUABLE TO ITS CUSTOMERS

EMJ has:

- A depth of product knowledge among sales and technical staff that surpasses the norm in the industry
- A business model of active distribution of niche products
- The ability to leverage its smaller size to be more responsive, accomplish tasks more quickly, and promptly provide decisions and answers
- Stability through attention to proven business fundamentals, a strong balance sheet and low staff turnover
- Dynamic product mix, including bundled products researched and proven to work well together
- Reseller support ranging from sales and business tips from the company president, published in each product guide, to advice and assistance in setting up a small computer-related business
- Walk-in facilities for sales and service, without an appointment being required
- Depot repair and upgrade of many products, often including those not purchased at EMJ

FINANCIAL RELATIONSHIPS WITH SUPPLIERS AND CUSTOMERS

The partner relationship with manufacturers is extremely important to EMJ. Manufacturers prefer EMJ because the company is a limited-line distributor and therefore has more focus on their product lines than the larger distributors would.

EMJ is an active distributor—we help create markets for our suppliers. Many manufacturers need this push and market-creation ability for their product lines.

At EMJ, the company takes pride in being flexible and working with manufacturers to help make markets. They use this flexibility in creative ways to reduce the manufacturers' costs in doing business with EMJ. If manufacturers are successful with EMJ, they will promote the company more and help them to be more successful.

EMJ takes a partnership approach with their manufacturer relationships. They use their sales ability, marketing clout, sales relationships and financial stability to assist manufacturers.

The Accounts Payable department at EMJ continuously works with suppliers to maintain concise records so that accounts will be kept current and reconciling items will be minimal. The department endeavours to meet any request suppliers put forth when it comes to payment of invoices.

EMJ's strength is its ability to communicate with suppliers to resolve any issues that may arise.

The Accounts Receivable (credit) department at EMJ is committed to finding ways to maximize sales while limiting the risk of bad debts to EMJ. The company accomplishes this through constant personal contact with customers, large or small, to keep their payment habits in line with EMJ's terms and to constantly monitor the customer's credit lines to ensure that the lines meet their business requirements. EMJ is committed to solving customers' problems regardless of whether they are accounts receivable related or not. The company's goal is to have its Days Sales Outstanding (DSO) at 40 days.

EMJ's History of Long-Term Staff

- Total EMJ employees: 194 (as of July 31, 2003)
- Employees with the company for at least:

15 years: 11%

10 years: 26%

5 years: 50%

EMJ America

EMJ prides itself on being a company with outstanding customer service. This year, EMJ was awarded Top Customer Service Award by NCEITA, the North Carolina Electronic and Information Technologies Association.

EMJ America Inc. was founded in 1990 as a niche distributor of hardware and software. EMJ America is located in Pittsboro, North Carolina, in Chatham Business Park. In 2001 EMJ moved into a newly constructed, environmentally sensitive facility with energy efficient geothermal heating and air-conditioning. The building also boasts insulated windows, filled with argon gas, that slows the transfer of heat between the inside and outside of the building by reducing thermal conductivity. EMJ is located on 10 acres of land with two ponds, which makes for a peaceful working environment for employees.

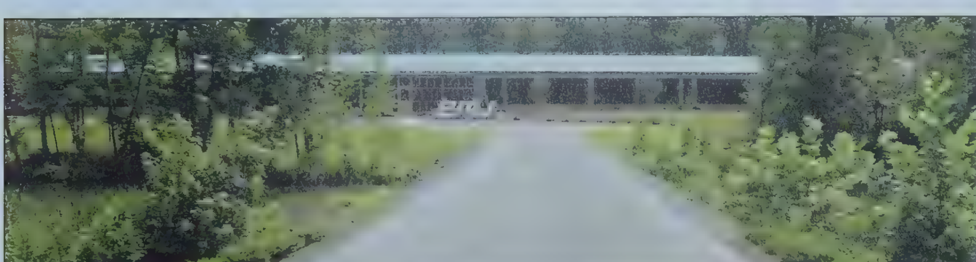
Since 1995 EMJ America's main focus has been on ruggedized embedded hardware like single board computers, card readers, flash solutions and multiport serial boards. Customers who use this hardware require components that withstand harsh environments, such as military, medical and industrial applications. Product lines include Kontron, M-Systems, Connect Tech and Tri-M. EMJ also offers software from Hummingbird Communications, Blast Software Inc. and Borderware Technologies.

EMJ prides itself on being a company with outstanding customer service. This year, EMJ was awarded Top Customer Service Award by NCEITA, the North Carolina Electronic and Information Technologies Association. NCEITA is dedicated to growing and strengthening the IT industry in North Carolina. On April 10, 2003 EMJ was awarded the North Carolina Department of Commerce 2003 International Community and Economic Development Award.

In the past decade, EMJ America has received numerous awards as a top distributor. In July of 2003, EMJ was awarded the Top Kontron Distributor for the third year in a row. This honour is given in "recognition of achieving the highest revenue of all Kontron Module distributors ".

In August of 2003, EMJ was awarded Borderware Distributor of the year. BorderWare's mission is to develop and market easy-to-use and highly secure Internet software products based on its field proven S-CORE technology. EMJ has had tremendous success with their new M-Xtreme that acts as a secure email firewall and server.

From left to right: Donnie Springfield, Paige Ross, MaryJane Copeland, Sabrina Schulz, Erica Jones, Raymond Tyson, Seth Cobler, Shelley Darden, Bob Buchanan, and Janice Clarida.



The EMJ America building.

Raymond Tyson and Mark Estill in the EMJ America warehouse.

Daisytek Canada: Canada's Leading Supplies, Media and Accessories Wholesaler

Daisytek Canada was created in 1989 as Daisytek USA's first expansion outside the U.S. Market. Suzanne Barrette, Daisytek Canada's founder and current Vice President of Sales & Marketing, launched the company from a small office located in Richmond Hill with 4 employees. Daisytek Canada quickly established relationships with many top Canadian OEMs such as HP, Lexmark, Epson and Imation, and succeeded in creating Canada's only pure " Computer Supplies Wholesaler".

In 1990 Daisytek Canada opened a Western Region warehouse in Burnaby B.C.. At the time, Daisytek was the only pure Computer Supplies Wholesaler with a distribution centre in Western Canada. Daisytek Canada's expansion demonstrated the company's commitment to the Western Canadian market and allowed it to better serve its regional customers there.

Daisytek experienced phenomenal growth during the 1990's with the explosion of the printer supplies market and the introduction of many OEM lines such as Brother, Canon and Xerox. By the end of fiscal 1999, Daisytek had 3500 customers with revenues of $155 million.

Daisytek Canada also operated Priority Fulfillment Services (PFS) out of its Canadian facilities during the late 1990s. PFS was a division Daisytek created which provided fee based logistics, IT and call centre support to OEMs in the IT industry. This division was spun off in fiscal 1999, and now operates independently as PFSWeb in Richmond Hill, Ontario.

In April 2002, Daisytek opened a satellite sales office in Montréal, Québec. Although Daisytek Canada had served the Québec market from its Ontario head office it felt that an expansion would allow the local office to better serve the distinct Québec channel and further penetrate this market. In October 2002, Daisytek created further excitement amongst its customers with the addition of Office Products to its product lineup. Daisytek finished fiscal 2002 with revenues of approximately $230 million.

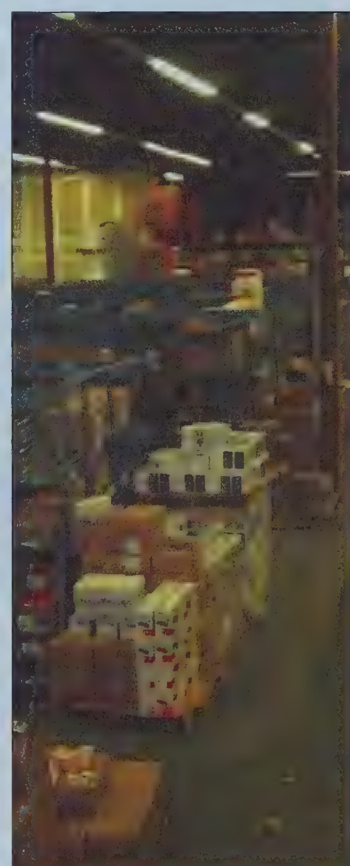
After fourteen years in the Canadian market, with Suzanne Barrette and Alan Miller, VP Operations at the helm, Daisytek Canada is poised to continue its leadership position within the Supplies, Media and Accessories distribution market in Canada.

Daisytek Canada strives to differentiate itself from its competitors through high order fill rates, same-day shipments, next-day delivery and the quality and breadth of its value-added customers services. These services include innovative marketing programs, online order processing, automated order tracking and a knowledgeable sales staff.

Daisytek Canada is committed to achieving increased market share and continued sales and earnings growth. By holding their relationships with their partners in the highest regard and selling only to resellers, Daisytek expects to enjoy continued success.

By holding their relationships with their partners in the highest regard and selling only to resellers, Daisytek expects to enjoy continued success.

After fourteen years in the Canadian market, Daisytek Canada is poised to continue its leadership position within the Supplies, Media and Accessories distribution market in Canada.



Daisytek has two distribution centres. The Markham, ON location has 52,000 square feet while the Burnaby, BC warehouse has 20,000 square feet.

Management's Discussion & Analysis

The following discussion of the results of operations and financial condition for the year ended July 31, 2003 should be read in conjunction with the consolidated financial statements and accompanying notes.

OVERVIEW

During the past year, EMJ's focus has been on developing and strengthening its core business. EMJ's business is distribution in niche markets. Since technologies and products continue to develop and change rapidly, the company closely monitors developments to anticipate marketplace opportunities.

RESULTS OF OPERATIONS

Sales for fiscal 2003 increased \$8.1 million or 4.5%, from \$181.9 million to \$190.0 million. Sales in the high tech sector continued to be weak in 2003 due to economic uncertainty. Many businesses continued to put off capital purchases. Although sales by the U.S. subsidiary were weak in 2003 decreasing 22%, sales by the Canadian operation saw an improvement over the previous year, increasing 6.4%.

Gross margin decreased to 7.4% from 8.7%. Competition is a primary consideration for determination of selling prices and as a result, prices are being driven down resulting in lower margins.

The strengthening of the Canadian dollar during the year has been favourable to the Company since 57% of its payables are denominated in U.S. dollars. For fiscal 2003, the Company realized a foreign exchange gain of \$572,000 compared to a loss in the previous year of \$139,000.

Selling, general and administrative expenses increased from \$10.6 million to \$11.4 million, primarily as a result of bad debts. The weakened economy resulted in a number of customers experiencing financial difficulties during the year. The Company's bad debt expense increased from \$1.3 million to \$2.1 million. Management is focused on reducing bad debt expense. Interest expense decreased to \$542,000 from \$656,000 due to lower bank borrowings and favourable interest rates.

The Company's effective income tax rate for 2003 was 13.6% compared to 11.5% the previous year. Income tax benefits in the amounts of \$737,000 and \$1,311,000 not previously recognized were utilized to reduce taxes otherwise payable for 2003 and 2002, respectively. The tax losses remaining, from the acquisition of another company, are approximately \$10.9 million and any unused portion will expire in the 2004 and 2005 taxation years.

Net income for fiscal 2003 was \$2.3 million compared to \$3.9 million the previous year, a decrease of \$1.6 million or 40.5%, primarily as a result of a decrease in gross margin.

Earnings per share for fiscal 2003 were \$0.30 compared to \$0.50 for 2002. Diluted earnings per share reflects the potential dilution of securities by adding other common stock equivalents in the weighted average number of common shares outstanding during the period, if dilutive. There was no dilution affecting earnings per share in either year.

Management closely monitors its working capital to avoid unnecessary write-down of slow moving inventory and bad debts. The inventory decreased to \$16.8 million from \$21.5 the previous year. Accounts payable decreased \$6.0 million from the previous year, a reflection of reduced inventory. Accounts receivable decreased from \$21.9 million to \$19.9 million, a \$ 2.0 million or 9.3% decrease.

During the year, the Company disposed of its Halifax property for gross proceeds of \$320,000 resulting in a gain of approximately \$110,000. The Company took back a mortgage receivable in the amount of \$304,000 which bears interest at 7% per annum, calculated semi-annually maturing October 2007.

On July 31, 2003, the Company issued a note payable in the amount of \$1.0 million collateralized by a general security agreement, bearing interest at a rate of 4.8% per annum. Subsequent to July 31, 2003, the note payable was replaced with a \$1 million three-year debenture and 75,000 common share purchase warrants. The debenture bears the same interest rate as the promissory note and may be put to the Company by the holder at any time prior to maturity in exchange for common shares at a price of \$5.00 per share. The purchase warrants enable the holder to acquire 75,000 common shares at a price of \$7.00 per share, on or before July 31, 2006.

The Company has adopted CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments. Under this policy, the Company's pro forma net income under Canadian generally accepted accounting principles would be reduced by \$50,000 for the twelve months ended July 31, 2003. Basic and diluted earnings per share figures would have been reduced by \$0.01 for the year ended July 31, 2003. The weighted average fair value of stock options granted during the year ended July 31, 2003 was \$0.49 per option.

ACQUISITIONS

Subsequent to year-end, the Company entered into an agreement to acquire 100% of the shares of Daisytek (Canada) Inc. ("Daisytek") for approximately U.S. \$20.0 million. Closing of the acquisition took place on October 1, 2003. The purchase price will be reduced to the extent that the net assets on closing are less than U.S. \$17.0 million. Daisytek is a distributor of computer and office

96th
Consecutive quarter of operating profit

\$0.30
Earnings per share

10.9%
INCREASE in average number of customers buying per month

4.5%
INCREASE in Sales for the year ended July 31, 2003 compared to the previous year

40 days
Accounts Receivable average sales days outstanding

40 days
Inventory average sales days outstanding

Continued on Page 12...

Management's Discussion & Analysis... Continued from Page 11

supplies and complements the Company's core business.

To partially fund the acquisition of Daisytek, the Company commenced a private placement of up to $14.0 million in Canadian dollars, with an option to increase the offering size by up to 40%. The offering provided investors the choice of acquiring convertible debentures or convertible preferred shares. The offering closed September 25, 2003 and raised gross proceeds of $19.6 million. The debentures have a three-year term, pay interest at a rate of 12.0% per annum and are convertible into common shares at a price of $8.00 per share. The preferred shares have an annual dividend at a rate of 8.0% per annum for three years and are convertible into common shares at a price of $8.00 per share. Holders of the preferred shares have the right to put their shares back to the Company after three years from closing, at the issue price. Preferred shares not sold back to the Company are automatically converted into common shares following the third anniversary of the closing date.

RISKS AND UNCERTAINTIES

The Company operates in a highly competitive market where there is intense competition and downward pressure on pricing and margins. Technologies and products continue to develop and change rapidly. Management focuses on avoiding unnecessary write-down of slow moving inventory and technological obsolescence by maintaining a high rate of inventory turnover and ensuring that it has the ability to return unsold inventory in certain circumstances to its suppliers. In addition, some of its supplier agreements offer price protection whereby the value of inventory EMJ has is credited to the new price in the event of price reductions. The Company also takes advantage of buying opportunities to impact positively on gross margins.

Risk management of accounts receivable involves establishing appropriate credit granting procedures to minimize the impact of bad debts especially in a difficult tech environment. The credit worthiness of customers is closely monitored. Management closely monitors and modifies its accounts receivable practices to avoid unnecessary write-down of bad debt losses. World events and changes in local, regional and global economic conditions also will affect the way the Company assesses credit risk.

The Company makes frequent changes to its selling price to offset any significant foreign exchange fluctuations.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow generated from operations was $3.7 million compared to $1.4 million the previous year. During the year the net change in non-cash working capital components, primarily in receivables, inventory and accrued charges provided cash of $679,000. In the previous year, increases in receivables, inventory, prepaids and accounts payable resulted in a net use of cash of $3.6 million. Decreases in inventory and receivables offset a similar decrease in accounts payable for fiscal 2003.

The Company has lines of credit in the amount of $25.0 million in Canadian currency or the U.S. dollar equivalent and the U.S. subsidiary has a line of credit in the amount of $1.0 million in U.S. currency. Real estate located in the United States has been provided as collateral to a maximum of $800,000 of the U.S. subsidiary's line of credit. The Company takes advantage of lower interest rates offered on Bankers' Acceptances to finance its operations

Cash used in investing activities was $228,000 compared to $1.6 million. There were no major investing activities during the year.

Cash utilized in financing activities was $3.5 million compared to cash provided in the previous year of $253,000. In fiscal 2003, the Company's bank loan decreased by $3.9 million compared to an increase in the previous year of $1.3 million. Dividends were paid out totaling $632,000 in fiscal 2003 compared to $1.3 million the previous year. Dividends totaling $632,000 were paid subsequent to the year end. The exercise of stock options generated proceeds of $29,000 compared to $187,000 the previous year. The Company currently has 621,106 stock options outstanding, representing 7.9% of the common shares issued and outstanding, of which 470,972 were exercisable at July 31.

Part of the proceeds raised of the $19.6 million and discussed under "Acquisitions" will be used to fund general operations. It is expected that these proceeds, the Company's current bank lines and cash flow generated from operations will be sufficient to meet its working capital requirements in the next year.

OUTLOOK

The tech sector has seen a minor upturn in the past year. The corporate sector cannot continue to put off capital expenditures as computers age and become obsolete over time.

The Company's purchase of Daisytek, outlined under "Acquisitions", was completed on October 1, 2003. Daisytek, headquartered in Markham, Ontario, is a distributor of computer supplies and media. EMJ's primary focus is on selling hardware, software and peripherals. The addition of Daisytek complements EMJ's existing business and both companies will be able to grow by offering its products to each others existing customers. Sales in consumables are a rapidly growing market and provide opportunities for growth in both the consumables and computer market.

The addition of Daisytek effectively doubles EMJ's sales. The companies will move forward in 2004 focused on maximizing its sales, buying power and realizing savings from the synergies the two companies together create.

Management's Report

The management of EMJ Data Systems Ltd. is responsible for the preparation of all information included in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates. Financial information included elsewhere in this report is consistent with that in the consolidated financial statements.

Management is responsible for the integrity and objectivity of the consolidated financial statements. A system of internal controls, to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that the assets are safeguarded, is maintained by management.

The Company's independent auditors, appointed by the shareholders, have prepared their report which outlines the scope of their examination and their opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee of the Board of Directors is comprised of a majority of directors who are not employees. The Committee meets with management and the auditors to discuss significant accounting, reporting and internal control matters and reviews and recommends the consolidated financial statements to the Board for approval.

September 5, 2003

Jim

Jim Estill
President and Chief Executive Officer

Glen

Glen Estill
Chief Financial Officer

Auditors' Report

To the Shareholders of **EMJ Data Systems Ltd.**

We have audited the consolidated balance sheets of **EMJ Data Systems Ltd.** as at July 31, 2003 and 2002 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Kitchener, Canada,
September 5, 2003.

Consolidated Balance Sheets

As at July 31

($000s)	2003	2002
ASSETS		
Current		
Accounts receivable		
Trade	19,888	21,916
Other	75	221
Inventory	16,774	21,496
Prepaid expenses	954	1,016
Notes receivable – current portion *[note 3]*	714	290
Mortgage receivable – current portion *[note 6]*	8	—
Investment in sales-type leases – current portion *[note 4]*	374	463
Income taxes recoverable	70	—
Future tax asset *[note 12]*	1,211	1,984
Total current assets	40,068	47,386
Notes receivable – net of current portion *[note 3]*	462	720
Mortgage receivable – net of current portion *[note 6]*	291	—
Investment in sales-type leases – net of current portion *[note 4]*	297	403
Future tax asset – net of current portion *[note 12]*	1,577	1,913
Capital assets *[note 6]*	4,797	4,930
Investments *[note 7]*	139	183
Total assets	47,631	55,535
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 8]*	12,392	16,273
Accounts payable and accrued charges	9,444	15,475
Dividends payable	632	—
Income taxes payable	—	12
Deferred tax benefit *[note 12]*	784	1,361
Total current liabilities	23,252	33,121
Note payable *[note 9]*	1,000	—
Long-term debt *[note 10]*	441	420
Deferred tax benefit *[note 12]*	1,255	1,425
Shareholders' equity		
Share capital *[note 11]*	8,011	7,982
Contributed surplus	344	344
Retained earnings	13,328	12,243
Total shareholders' equity	21,683	20,569
Total liabilities and shareholders' equity	47,631	55,535

See accompanying notes

On behalf of the Board:

Director

Jim Estill
President and Chief Executive Officer

Director

Glen Estill
Chief Financial Officer

Consolidated Statements of Income and Retained Earnings

Year ended July 31

($000s except per share figures)	2003	2002
SALES	190,045	181,937
Cost of goods sold	175,920	166,160
Gross margin	14,125	15,777
EXPENSES		
Selling, general and administrative	11,418	10,608
Foreign exchange (gain) loss	(572)	139
Interest, net *[note 8]*	542	656
	11,388	11,403
Income from operations	2,737	4,374
Investment income	29	178
Write-down of investments	(48)	(88)
Income before provision for income taxes	2,718	4,464
Provision for income taxes *[note 12]*	369	514
Net income	2,349	3,950
Retained earnings, beginning of year	12,243	9,553
Dividends on common shares	(1,264)	(1,260)
Retained earnings, end of year	13,328	12,243
Earnings per share *[note 13]*	$0.30	$0.50
Diluted earnings per share *[note 13]*	$0.30	$0.50

See accompanying notes

Consolidated Statements of Cash Flows

Year ended July 31

($000s)	2003	2002
OPERATING ACTIVITIES		
Net income	2,349	3,950
Adjustments for non-cash items:		
Amortization of capital assets	369	323
Allocation of recorded tax loss benefits	362	587
(Gain) on sale of capital assets	(110)	—
Write-down of investments	48	88
(Gain) on sale of investments, net	(6)	(2)
Imputed interest expense	21	20
	3,033	4,966
Net change in non-cash working capital components *[note 14]*	679	(3,581)
Cash provided by operating activities	3,712	1,385
INVESTING ACTIVITIES		
Capital asset additions	(441)	(1,412)
Proceeds from (investment in) sales-type leases	195	(60)
Proceeds from mortgage receivable	5	—
Proceeds from sale of capital assets	11	—
Purchase of investments	(4)	(168)
Proceeds on sale of investments	6	2
Cash (applied to) investing activities	(228)	(1,638)
FINANCING ACTIVITIES		
(Decrease) increase in bank indebtedness	(3,881)	1,326
Proceeds from note payable	1,000	—
Issuance of common shares	29	187
Dividends paid	(632)	(1,260)
Cash (applied to) provided by financing activities	(3,484)	253
Net cash provided during year	—	—
Cash, beginning of year	—	—
Cash, end of year	—	—

See accompanying notes

Notes to the Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and are within the framework of the significant accounting policies summarized below:

Principles of consolidation

The consolidated financial statements include the accounts of EMJ Data Systems Ltd. and its wholly owned U.S. subsidiary, hereinafter referred to as the "Company". All significant intercompany balances and transactions have been eliminated on consolidation.

Foreign currency translation

Effective August 1, 2002, the Company adopted the revised CICA Handbook Section 1650, Foreign Currency Translation. As a result of adopting this Section, gains or losses on non-hedged exposures related to long-term monetary items will be reflected in net income for the year. The effect of adopting this accounting policy was not significant and accordingly, no retroactive adjustment has been reflected in the consolidated financial statements. Foreign exchange gains or losses are now disclosed separately on the consolidated statement of income.

Assets and liabilities of the parent company which are denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Revenue and expenses are translated using the approximate exchange rate at the date of transactions. Exchange gains and losses resulting from the translation of these amounts are reflected in the consolidated statement of income and retained earnings in the year in which they occur.

The Company's U.S. subsidiary is considered to be an integrated entity. All monetary items are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Non-monetary balance sheet items are translated into Canadian dollars at historical exchange rates prevailing at the date of acquisition. Revenue and expenses are translated using the approximate exchange rate at the date of the transactions. Amortization of capital assets, translated at historical rates, is translated at the same exchange rate as the assets to which they are related. Exchange gains and losses from translation of the foreign subsidiary's accounts are reflected in the consolidated statement of income and retained earnings in the year in which they occur.

Inventory

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, or net realizable value. Net realizable value is defined as selling price less costs to sell.

Investments

Investments are recorded at cost less write-downs to reflect other than a temporary decline in value.

Capital assets and amortization

Capital assets are recorded at cost and are amortized using the following annual rates:

Buildings	4% declining balance
Office furniture and equipment	20% - 50% declining balance

These rates are expected to amortize the cost of the assets over their estimated useful lives.

Income taxes

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future income tax benefits and obligations are determined based on differences between the financial reporting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Future tax benefits are recorded as future tax assets if it is more likely than not that the future tax benefits will be realized. For future tax benefits that are acquired, the difference between the purchase price and the amount recorded for future tax assets is accounted for as a deferred tax benefit. The deferred tax benefit is reflected in income as the related acquired future tax benefit is utilized.

Use of estimates

The preparation of the consolidated financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the period. Actual results could differ from those estimates.

Earnings per share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution of securities by adding other common stock equivalents in the weighted average number of common shares outstanding during the period, if dilutive. The treasury stock method is used to calculate diluted earnings per share. Under the treasury stock method, it is assumed that potential proceeds from the exercise of stock options and warrants would be used to purchase the Company's common shares at the average market price during the period, thereby reducing the number of shares otherwise used to calculate diluted earnings per share.

Continued on Page 18...

Notes to the Consolidated Financial Statements...

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Continued from Page 17

July 31, 2003

Stock-based compensation plans

Effective August 1, 2002, the Company has adopted CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments. The Company has adopted this policy prospectively for new awards granted on or after August 1, 2002.

The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, that call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments.

The new standard permits the Company to continue its existing policy of recording consideration paid by employees or directors on the exercise of stock options or purchase of stock as a credit to share capital. The Company has chosen to recognize no compensation cost when stock options with no cash settlement features are granted to employees and directors under its stock option plan. Pro forma information showing the effect of applying the fair value method to all stock-based compensation is disclosed in note 11.

Direct awards of stock to employees and stock and option awards granted to non-employees are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of direct awards of stock are determined using the quoted market price of the Company's stock and the fair value of options are determined using the Black-Scholes option pricing model.

In periods prior to August 1, 2002, the Company recognized no compensation cost when stock or stock options were issued to employees. Any consideration paid by employees on the exercise of stock options or purchase of stock was credited to share capital.

Revenue recognition

Revenue from product sales and services is recognized at the time goods are shipped or services are rendered to customers. For sales-type leases, sales revenue is recognized at the time of shipment of product to the customer. Finance income related to sales-type leases is recognized in such a way as to produce a constant rate of return on the residual investment in the lease.

2. FINANCIAL INSTRUMENTS

The Company's trade accounts receivable relate primarily to product sales to a diverse range of customers throughout North America. Credit limits, ongoing credit evaluation and account monitoring procedures are utilized to minimize risk of loss.

A portion of the accounts receivable and accounts payable are denominated in U.S. dollars. The Company also maintains U.S. dollar denominated debt. The Company monitors exchange rates on an ongoing basis, but currently does not utilize derivative instruments. Approximately 57% [43% - 2002] of the Company's accounts payable balance is denominated in U.S. dollars and approximately 9% [8% - 2002] of the Company's accounts receivable balance is denominated in U.S. dollars.

The fair values of accounts receivable, bank indebtedness, accounts payable and accrued charges and income taxes recoverable or payable, approximate recorded amounts because of the short period to maturity of these instruments.

Sales-type leases, notes receivable, mortgage receivable, note payable and long-term debt are valued at interest rates approximating current interest rates for similar instruments. Accordingly, the fair value of these instruments is not materially different from their carrying value.

3. NOTES RECEIVABLE

The notes receivable from customers are repayable over 21 and 36 months and bear interest at 10% and 8% respectively. The customers have provided general security agreements as collateral for their account receivable balances and the notes receivable. During the year, interest income of $91,000 [$10,000 - 2002] was earned on the notes receivable.

4. INVESTMENT IN SALES-TYPE LEASES

($000s)	2003	2002
Minimum lease payments receivable and estimated residual value	779	921
Less unearned income	108	55
	671	866
Current portion	374	463
	297	403

During the year, finance income of $53,123 [$76,684 - 2002] was earned related to the above leases. The interest rates inherent in the leases range from 6.1% to 11.0%. The leases mature between March 2004 and July 2006.

5. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

($000s)	2003	2002
Sales	30	12
Purchases	2,285	2,203

Notes to the Consolidated Financial Statements...

5. RELATED PARTY TRANSACTIONS
Continued from Page 18

July 31, 2003

Sales and purchases include transactions with companies in which the controlling shareholders have an investment and that are subject to their significant influence. These transactions took place under normal trade terms. Included in accounts receivable at July 31, 2003, is $96,156 [$4,565 - 2002] due from related companies. Included in accounts payable is $8,003 [$17,626 - 2002] due to related companies. The amounts were incurred in the normal course of business activities.

6. CAPITAL ASSETS

Details of the capital assets are:

	2003		2002	
($000s)	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Buildings	4,542	1,288	4,648	1,247
Office furniture and equipment	2,650	2,004	2,391	1,790
	7,192	3,292	7,039	3,037
Less accumulated amortization	3,292		3,037	
	3,900		4,002	
Land	897		928	
Net book value	4,797		4,930	

During the year, the Company disposed of land and a building for gross proceeds of $320,000 resulting in a gain of approximately $110,000. Consideration included a mortgage receivable in the amount of $304,000 which bears interest at 7% per annum, calculated semi-annually, and payable in monthly payments of $2,328, with a maturity date of October 2007. Additional annual payments on account of the principal sum in the amount of at least five percent of the principal sum are due on October 1 of each year until maturity. The mortgage is collateralized by the property.

7. INVESTMENTS

The Company holds investments in certain public and private companies. The ownership in these companies is 10% or less.
The recorded and market values of investments in shares of public companies were $131,884 and $78,128 respectively at July 31, 2003. The fair value of the investments in shares of private companies is not reasonably determinable.

8. BANK INDEBTEDNESS

The Company has lines of credit in the amount of $25,000,000 in Canadian currency or the U.S. dollar equivalent and its U.S. subsidiary has a line of credit in the amount of $1,000,000 in U.S. currency, with banks in Canada and the United States, respectively. The bankers' acceptances outstanding at July 31, 2003, expire August 2003. General security agreements on all assets, except real estate, have been provided as collateral. Real estate located in the United States has been provided as collateral to a maximum of $800,000 of the U.S. subsidiary's line of credit. The Company is required to maintain certain financial covenants in connection with the lines of credit.

	2003		2002	
($000s)	U.S.	Canadian	U.S.	Canadian
Canadian dollar demand loan, interest at bank prime [4.75% at July 31, 2003; 4.5% at July 31, 2002].		669		2,542
U.S. dollar demand loan, interest at U.S. base rate [4.5% at July 31, 2003; 5.25% at July 31, 2002].	832	1,165	1,931	3,041
U.S. dollar demand loan, interest at U.S. bank prime plus 1/2% [4.5% at July 31, 2003; 5.25% at July 31, 2002].	398	558	438	690
Bankers' acceptances, interest at bank prime acceptance fee [4.18% at July 31, 2003; 3.96% at July 31, 2002].		10,000		10,000
		12,392		16,273

Net interest expense (income) consists of:

($000s)		2003	2002
Interest expense	– current	703	761
	– long-term	21	20
Interest income		(182)	(125)
		542	656

Current interest expense includes interest expense on bank loans for the year. Long-term interest expense includes interest on long-term debt [note 10]. Interest income includes interest on sales-type leases [note 4], notes receivable [note 3], and mortgage receivable [note 6].

Continued on Page 20...

Notes to the Consolidated Financial Statements...
Continued from Page 19

July 31, 2003

9. NOTE PAYABLE

The note payable is collateralized by a general security agreement, subject to the bank [note 8], is payable on August 20, 2003 and bears interest at the rate of 4.8% per annum. Subsequent to July 31, 2003, the note payable was replaced with a three-year debenture in the amount of $1,000,000 and 75,000 common share purchase warrants. The debenture bears interest at the same interest rate as the promissory note and may be put to the Company by the holder at any time prior to maturity in exchange for common shares at a price of $5.00 per share. The purchase warrants enable the holder to acquire up to 75,000 common shares of the Company at a price of $7.00 per share, on or before July 31, 2006. The note payable has been reflected as non-current in the accompanying consolidated balance sheet.

10. LONG-TERM DEBT

Long-term debt includes an amount of $441,000 [$420,000 in 2002] being the estimated discounted value of non-interest bearing debt of $2,100,000, that is repayable on October 31, 2037. Interest in the amount of $21,000 was imputed on this debt during 2003 [$20,000 in 2002] at a rate of 5%. This amount is a portion of the debt obligations assumed upon acquisition of a company in a prior year.

11. SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of common, first preference and second preference shares. The rights and restrictions attached to the preference shares are determined by the Board of Directors prior to issue.

The changes in issued common share capital are as follows:

	Shares	
(000s)	$	#
Balance, July 31, 2001	7,795	7,846
Issued for cash under stock option plan	187	49
Balance, July 31, 2002	7,982	7,895
Issued for cash under stock option plan	29	8
Balance, July 31, 2003	8,011	7,903

The Company has a stock option plan for directors, officers, employees and certain other eligible persons. The total number of shares set aside under options to all eligible persons may not exceed 1,136,605 common shares. The option exercise price cannot be lower than the market price of the common shares at the date the option is granted.

The summary of the Company's stock option activity for the years ended July 31, 2003 and 2002 is as follows:

	2003		2002	
		Weighted average exercise price		Weighted average exercise price
(000s)	#	$	#	$
Outstanding, beginning of year	575,932	4.29	443,732	5.50
Granted	134,200	4.35	293,200	4.31
Exercised	(7,700)	3.68	(48,800)	3.78
Forfeited	(81,326)	4.28	(112,200)	9.37
Outstanding, end of year	621,106	4.31	575,932	4.29
Options exercisable at year-end	470,972	4.29	372,131	4.28

All stock options granted during the current year were to directors, officers and employees.

The following table summarizes information about stock options outstanding at July 31, 2003.

	Options outstanding			Options exercisable		
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price
(000s)	#		$	#		$
$4.00 - $4.99	615,106	1.3	4.30	464,972	1.1	4.28
$5.00 - $5.45	6,000	.2	5.45	6,000	.2	5.45
	621,106	1.3	4.31	470,972	1.1	4.29

11. SHARE CAPITAL
Continued from Page 20

July 31, 2003

Pro forma information

Pro forma information regarding net income is required and has been determined as if the Company had accounted for its employee stock options granted after July 31, 2002 under the fair value method. The fair value for these options was estimated at the date of granting using a Black-Scholes Option Pricing Model with the following assumptions for 2003: risk-free interest rate of 3.5%; dividend yields of 4.0%; a volatility of 0.228; and a weighted-average expected life of the options of 2.0 years. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's pro forma net income under Canadian generally accepted accounting principles would be reduced by $50,000 for the twelve months ended July 31, 2003. Basic and diluted earnings per share figures would have been reduced by $0.01 for the year ended July 31, 2003.

The weighted average fair value of stock options granted during the year ended July 31, 2003 was $0.49 per option.

12. INCOME TAXES

The effective rates of income taxes provided for (recovered) in the consolidated statements of income vary from the statutory tax rates as follows:

	2003 %	2002 %
Combined basic Canadian federal and provincial rate	37.4	39.9
Amortization of deferred tax benefit	(24.6)	(25.1)
Non-taxable permanent differences and other	0.8	(3.3)
Effective income tax rate	13.6	11.5

Significant components of the provision for income taxes are as follows:

($000s)	2003	2002
Current tax expense	7	(73)
Allocation of recorded tax loss benefits	362	587
	369	514

The Company has tax losses of approximately $10,900,000 related to the acquisition of another company, which are available to reduce income taxes in future years. These tax losses will expire in the 2004 and 2005 taxation years, if not otherwise utilized. A portion of the purchase price was allocated to the tax benefit of the losses at the date of acquisition and was recorded as a future tax asset. A future tax asset of $749,000 and $1,111,000 is recorded at July 31, 2003 and 2002 respectively, in connection with this benefit. The total benefit of acquired tax losses at the date of acquisition exceeded the amount paid and recorded as a future tax asset. An additional future tax asset and equal deferred tax benefit were recorded on the balance sheets at July 31, 2003 and 2002 in amounts of $2,039,000 and $2,786,000 respectively, in connection with these tax losses. The amortization of deferred tax benefits related to these losses in the amounts of $737,000 and $1,311,000 was applied to reduce the income tax provisions for 2003 and 2002, respectively.

The Company has unclaimed capital cost allowance in excess of book values of approximately $3,000,000 for which the benefit has not been recognized in the accompanying consolidated financial statements.

13. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution of securities by adding other common stock equivalents in the weighted average number of common shares outstanding during the period, if dilutive.

The weighted average number of shares outstanding for the year was 7,901,601 [7,863,990 - 2002] shares.

The diluted earnings per share computation as at July 31 is determined as follows:

($000s)	2003	2002
Weighted average common shares	7,901,601	7,863,990
Incremental shares from assumed conversion of employee stock options	1,117	20,031
Adjusted weighted average shares	7,902,718	7,884,021

14. CASH FLOWS

Net change in non-cash working capital components consists of:

($000s)	2003	2002
Decrease (increase) in trade and other receivables	2,174	(1,041)
(Increase) in notes receivable	(166)	(1,010)
Decrease (increase) in inventory	4,722	(2,985)
Decrease (increase) in prepaid expenses	62	(680)
(Decrease) increase in accounts payable and accrued charges	(6,031)	2,086
(Decrease) increase in income taxes payable	(12)	12
(Increase) decrease in income taxes recoverable	(70)	37
	679	(3,581)

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Notes to the Consolidated Financial Statements...

14. CASH FLOWS

Continued from Page 21

July 31, 2003

Cash paid for:

($000s)	2003	2002
Interest	703	761
Income taxes	227	183

During the year, the Company issued a mortgage receivable in the amount of $304,000, on disposal of land and a building as disclosed in note 6. This non-cash transaction is not reflected in the accompanying consolidated statement of cash flows.

15. COMMITMENTS

The Company is committed to make total future minimum annual lease payments, in accordance with the terms of operating leases, with respect to certain premises as follows:

($000s)	
2004	71
2005	63
2006	56
2007	39
2008	1
	230

16. SEGMENT INFORMATION

The Company principally operates in a single industry segment, the wholesale distribution of computer products. Approximately 56% [57% - 2002] and 44% [43% - 2002] of the Company's capital assets are located in Canada and the United States, respectively. Revenues from external customers are attributed to countries based on the location of the customers and are distributed as follows:

($000s)	2003	2002
Canada	180,578	162,341
United States	9,467	19,596
	190,045	181,937

17. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current year.

18. SUBSEQUENT EVENTS

Subsequent to year-end, the Company entered into an agreement to acquire 100% of the shares of Daisytek (Canada) Inc. ["Daisytek"] for approximately U.S. $20,000,000. Closing of the acquisition is expected to take place on September 30, 2003. Under the terms of the transaction, the purchase price will be reduced to the extent that the net assets on closing are less than U.S. $17,000,000. The acquisition will be accounted for as a business combination.

The Company has commenced a private placement of up to $14,000,000 in Canadian dollars, with an option to increase the offering size by up to 40%, to partially fund the acquisition of Daisytek. The offering provides investors the choice of acquiring convertible debentures or convertible preferred shares. The offering is expected to close in late September and is subject to regulatory approval. Pursuant to the engagement letter and term sheet with the investment bankers, the debentures have a three-year term, pay interest at a rate of 12.0% per annum and are convertible into common shares at a price of $8.00 per share. The preferred shares have an annual dividend at a rate of 8.0% per annum for three years and are convertible into common shares at a price of $8.00 per share. Holders of the preferred shares have the right to put their shares back to the Company after three years from closing, at the issue price. Preferred shares not sold back to the Company are automatically converted into common shares following the third anniversary of the closing date. If the acquisition of Daisytek is not closed by October 31, 2003, any outstanding convertible debentures or preferred shares will be repurchased by the Company and the repurchase price along with any accrued dividends or interest will be returned to investors.

As disclosed in note 9, subsequent to July 31, 2003, the Company issued a debenture in the amount of $1,000,000 and 75,000 common share purchase warrants.

Shareholder Information

STOCK LISTING
The Toronto Stock Exchange
Symbol (TSX): EMJ

TRANSFER AGENT AND REGISTRAR
Computershare Investor Services, Inc.

AUDITORS
Ernst & Young LLP
Kitchener, ON

ANNUAL MEETING
November 27, 2003
5:30 p.m. EST
EMJ Data Systems Ltd.
7067 Wellington Road 124
Guelph, ON N1H 6J3

BANK
Royal Bank of Canada,
Guelph, ON

WEBSITES
www.emj.ca
www.emj.com (EMJ America)
www.daisytek.ca

FOR MORE INFORMATION
Contact Jim Estill at
(519) 837-2444 Ext. 213,
E-mail: jestill@emj.ca

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An EMJ Company

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1-800-668-7590

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Burnaby BC V5C 3V6
Phone: 604-291-8023

DAISYTEK MONTRÉAL
1255 rte Trans-Canadienne
Suite 120
Montréal QC H9P 2V4
Phone: 514-421-1042

Board of Directors

JAMES A. ESTILL (2)
President and Chief Executive Officer, EMJ Data Systems Ltd.

GLEN R. ESTILL (1)
Chief Financial Officer,
EMJ Data Systems Ltd.

FRANK J. HASENFRATZ (2)
Chairman, Linamar Corporation

DOUGLAS R. PEEL (1) (2)
Managing Partner, Kilmer Capital Partners Limited

W. DAVID PETRAS (1)
Partner, Technology Law Group,
Gowling Lafleur Henderson LLP

(1) Member of the Audit Committee
(2) Member of the Compensation Committee

Officers

JAMES A. ESTILL— STARTED EMJ IN 1979
Founder, President and CEO, EMJ Data Systems Ltd.
Jim Estill is a graduate of the University of Waterloo B.A. Sc.–Systems Design Engineering; P. Eng.—Professional Engineer, Ontario.

EMJ has been recognized as one of 'Canada's 50 Best Managed Companies'. In 1997, Jim was a winner of Canada's 'Top 40 Under 40', and a finalist for 'Entrepreneur of the Year'. He also was a winner of the 'University of Waterloo 2000 Engineering Alumni Achievement Medal'.

Jim was presented the 'Gold Winner' from Channel Business' 'Channel Excellence Awards' for 'Outstanding Achievement'.

Jim is a frequent speaker at Comdex Canada and lectures and writes articles on the subjects of entrepreneurship, business, computer industry trends, negotiation skills, and time management.

GLEN R. ESTILL— STARTED WITH EMJ IN 1979
Chief Financial Officer, EMJ Data Systems Ltd.
Glen Estill has worked at EMJ since its 1979 inception, after graduating with a B.A., Economics and an MBA from the University of Western Ontario.

ALEXANDRA E. KLEIN— STARTED WITH EMJ IN 1984
Vice President of Purchasing, EMJ Data Systems Ltd.
Alex Klein joined EMJ in 1984, after completing a Bachelor of Mathematics and Computer Science degree at University of Waterloo. She started in the sales department, and expanded our customers to include Québec based resellers. Alex brings to EMJ expertise in negotiation, logistics, and an enthusiasm to continually improve the way EMJ does business.

J. RAYMOND SOUCY— STARTED WITH EMJ IN 1987
Vice President of Sales, EMJ Data Systems Ltd.
Raymond Soucy joined EMJ Data Systems Ltd. as an inside sales representative and has worked in both EMJ's Vancouver and Guelph offices. He has climbed steadily to reach his present position of Vice President of Sales and Branch Operations.

ROSEMARY C. LANGEL— STARTED WITH EMJ IN 1986
Vice President of Finance, EMJ Data Systems Ltd.
In 1985, Rosemary Langel obtained her Chartered Accountancy designation.

She worked for a national accounting firm prior to joining EMJ Data Systems Ltd. as the Company Controller in 1986. In 1994, Rosemary was appointed Corporate Secretary. She is the Compliance Officer for the Corporation and ensures that all securities and Toronto Stock Exchange filings are completed and filed. Rosemary is actively involved in all EMJ's mergers and acquisitions from initial discussions to review and final completion of legal documents.

MARLENE J. O'GRADY— STARTED WITH EMJ IN 1984
Vice President of Operations, EMJ Data Systems Ltd.
Marlene O'Grady joined EMJ in Operations and was responsible for shipping, inventory, receiving, warehouse, customer service, quality control, vendor and customer returns. In 1994, Marlene was given the responsibility of the Service Department and in 2001 the title of Ontario Sales Manager. Since 2002, she has been the Vice President of Operations as well as the Ontario Sales Manager. Her years of experience and clear understanding of what is important to the overall operation has added value to EMJ.

MARK T. ESTILL— STARTED WITH EMJ IN 1998
Vice President, EMJ America
Mark Estill graduated from the University of New Brunswick with a BA in English in 1980. He has worked in the computer industry for 17 years. He was the president of BLAST Software prior to joining EMJ America Inc as Vice President five years ago.

ALAN MILLER— STARTED WITH DAISYTEK IN 1991
Vice President of Operations, Daisytek Canada
Alan Miller has been with Daisytek Canada since 1991, serving in managerial capacities in Marketing, Product Management and Purchasing. In 1996, Alan was promoted to Vice President of Operations and is responsible for Purchasing, Inventory Control, Distribution Centres, Human Resources, Customer Care Centre, Accounts Receivable and MIS.

Alan holds a degree in Production and Operations Management.

SUZANNE BARRETTE— STARTED WITH DAISYTEK IN 1989
Vice President of Sales and Marketing, Daisytek Canada
Suzanne Barrette is one of the founding officers of Daisytek Canada, and the current General Manager. Suzanne's focus is related to Sales, Marketing, Product Management and Specialized Customer Programs.

Suzanne has been in the Computer Supplies Industry since 1981. Her first four years were spent as the National Sales Manager for a computer supplies organization, after which Suzanne set up her own sales agency in Québec.

Distributing Product From More Than 160 Manufacturers

3M Innovation, 3M Touch Systems

A Acer, Adesso, ADS Technologies, AEP Systems, Aladdin Systems, Alien Skin Software, Altiris, Alvarion, American Power Conversion, Anycom, AOpen America, Apple Accessories, Apple Canada, Asanté, Aspyr Media, ATI, ATTO Technology

B Battery Technologies Inc., BCM Advanced Research, BLAST Software, Boblbee, BorderWare Technologies Inc., Boundless, Brigadoon Software, Inc., Brother Canada

C Canon Canada, CBM America, CBM Metal, Celestix, Century Software, Champ, Champion Systems, Channel Storm, Cherry, CI Design, Cisco Systems, Compu-Data, Connect Tech Inc., Connector Resources Unltd.

D D-LINK Networks, Dantz Development., Data Accessories Corp, Detto Technologies, Dicota, Digi International, Digital Persona, Dr. Bott, DViCO

E Eltron, Enfocus Software, Epson Canada, Eskape Labs, Esker, Extensis, EZQuest

F Fantom Drives, Final Draft, Fluke Networks, FOCUS Enhancements, Fujitsu Canada, Futures (Wales) Ltd.

G Gainward, GCC Technologies, Gee Three.com, Griffin Technologies

H Hammond Manufacturing, Harman Multimedia, Hemera Technologies, Hummingbird Communications

I Imation, Inostor, Intermec, Intuit Canada, In-Win

J JMR Electronics, JVC Canada

K Keyspan, Kingston Memory and Value RAM, Koss

L LaCie, Lava, Lexmark, LG Electronics, LSI Logic

M M-S Drawer, M-Systems, MCE Technologies, Mace Group (macally, pcally), MacPlay, Macromedia, Marathon Computer, Maxell, MediaFORM Inc., Mediamounts, Metrologic, Micro Solutions, Microlite, MicroNet, Microsoft, Microtech, Microworld, MiLAN Technology, Minolta/QMS, Miramar Systems, Multi-Tech Systems

N NCD, NEATO, Neoware Systems, NETGEAR, Netopia, NetWinder, New Moon Systems, Nova Development

O O'Neil, Orange Micro Inc.

P Pantone, Inc., Pentax, Philips Electronics, Pinnacle Systems, Pioneer New Media, POSH Systems, Powerware, Preh Electronics, Prosoft

S Samsung, SCO, Sharp, ScriptLogic, SmartDisk, Sonic Desktop, Sonnet Technologies, Sony (CPI), Sony Media, Sophos, Speck Products, Star Micronics, StarTech, StatPower Technologies, Strandware, Strata, Symbol Technologies, Synercard

T Tandberg Data, Tarantella, Targus, TEC Canada, Teklink, Teltec, Thursby Software Systems, Inc., Trillium Computers, Trillium Storage Solutions, Troy Group, TVS

U Unitech

V V-Systems (VSI), Verbatim, Videolarm

W Wacom Technology, Weigh-Tronix, Wyse Technology

X XANTE, Xantrex

Z Zebra Technology

Other products by various manufacturers:
Audio tape technology series, Cables and switchboxes, CD-ROM recording software/accessories, Computer books, Digital A/V workstations, Hard Disk Drives, Memory Products (RAM), Network cabling, tools and accessories, Point-of-Sale / Auto-ID Devices

EMJ's specialties include:

- Apple and Apple 3rd Party
- Bar Coding / Auto-ID / Point-of-Sale
- Digital Video
- Networking
- Security

EMJ DATA SYSTEMS
CELEBRATING X TEN YEARS WITH APPLE 1993–2003

In 2003, EMJ celebrated its 10-year distributing relationship with Apple.

acer & EMJ Data Systems
celebrating 15 years together

EMJ has been distributing Acer products for 15 years.

A complete listing of all current manufacturers can be found at: www.emj.ca

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